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Nestor - BNA plc

ANNUAL REPORT AND ACCOUNTS 1989



NURSING AGENCIES



HOSPITALS AND
NURSING HOMES



DOCTORS' DEPUTING
SERVICES



PROVISION OF QUALIFIED
AND PART-QUALIFIED ACCOUNTANTS




PROVISION OF PROGRESSIVE
IMPROVEMENT SPECIALISTS

GROUP STRUCTURE

NESTOR-BNA plc

HEALTH CARE


 NESTOR MEDICAL SERVICES

 NESTOR MEDICAL DEPUTISING GROUP

 BRITISH NURSING ASSOCIATION

SPECIALIST PERSONNEL

 SCOTT-GRANT ORGANISATION

 HEWITSON-WALKER LIMITED



Nestor Medical Services. Proportion of group operating profit in 1989 was 13%. NMS owns and manages three hospitals and three nursing homes. Its areas of expertise are care of the elderly, rehabilitation, acute psychiatry and the provision of acute surgical medical facilities.

register. It currently has 130 branches and provides over 155,000 hours of care each week.



Scott-Grant Organisation. Proportion of group operating profit in 1989 was 14%. Its primary business is the supply on a temporary basis of specialist supervisory, technical and computer personnel. It also sells its own computer software and provides lecturing and training facilities.



Nestor Medical Deputising Group. Proportion of group operating profit in 1989 was 8%. NMD operates doctors' deputising services from eight centres in North West England and the West Midlands. In 1989 this division made 280,000 house calls.



Hewitson-Walker Limited. Proportion of group operating profit in 1989 was 16%. Hewitson-Walker place qualified and part-qualified accountants on a temporary basis, primarily in the Greater London area. In a typical week they have over 400 temporary staff out on assignment.



British Nursing Association. Proportion of group operating profit in 1989 was 49%. BNA is the largest nursing agency in the country with some 59,500 nurses and carers on its

C O R P O R A T E S T A T E M E N T

" . . . The companies in the Nestor-BNA group represent an exceptional blend of resilience and opportunity for growth. Our objectives are straightforward. We aim to retain these special characteristics while we develop and grow a group of companies operating in the health care and specialist personnel industries, with a view to becoming a major force in both sectors. We will achieve this not necessarily by being the biggest, because size in itself presents no challenge, but by seeking to be the best at what we do . . . "

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DIRECTORS AND ADVISORS

DIRECTORS

Herbert John Hann
Non-executive Chairman

Michael Greig Rogers
Chief Executive

Robin John Orlando,
Viscount Bridgeman
Non-executive

John Jeffrey Cockburn MB
Managing Director NMD

Francis John Adrian Howard
Non-executive

William Ian David Lazarus FCA
Group Finance Director

Jennifer Priestley SRN
Managing Director NMS

Philip Punter FCA
Finance Director BNA

Michael Henderson Durward Smith
Managing Director BNA

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PRINCIPAL BANKERS

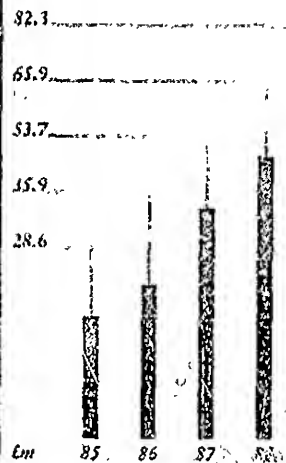
National Westminster Bank
24 Albemarle Street
London W1X 4JS

REGISTRARS AND TRANSFER OFFICE

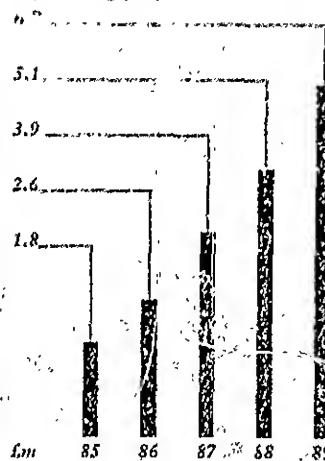
National Westminster Bank
Registrars Department
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FINANCIAL HIGHLIGHTS

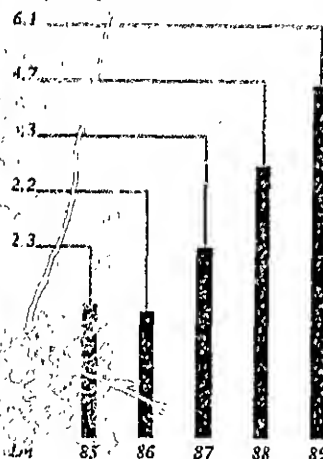
Turnover



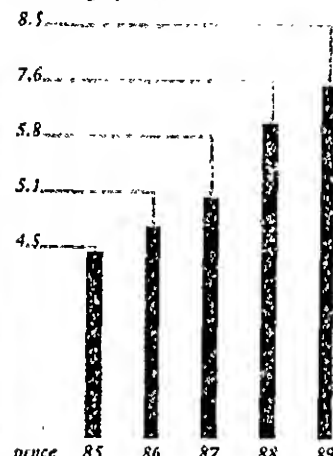
Operating profit



Profit before taxation



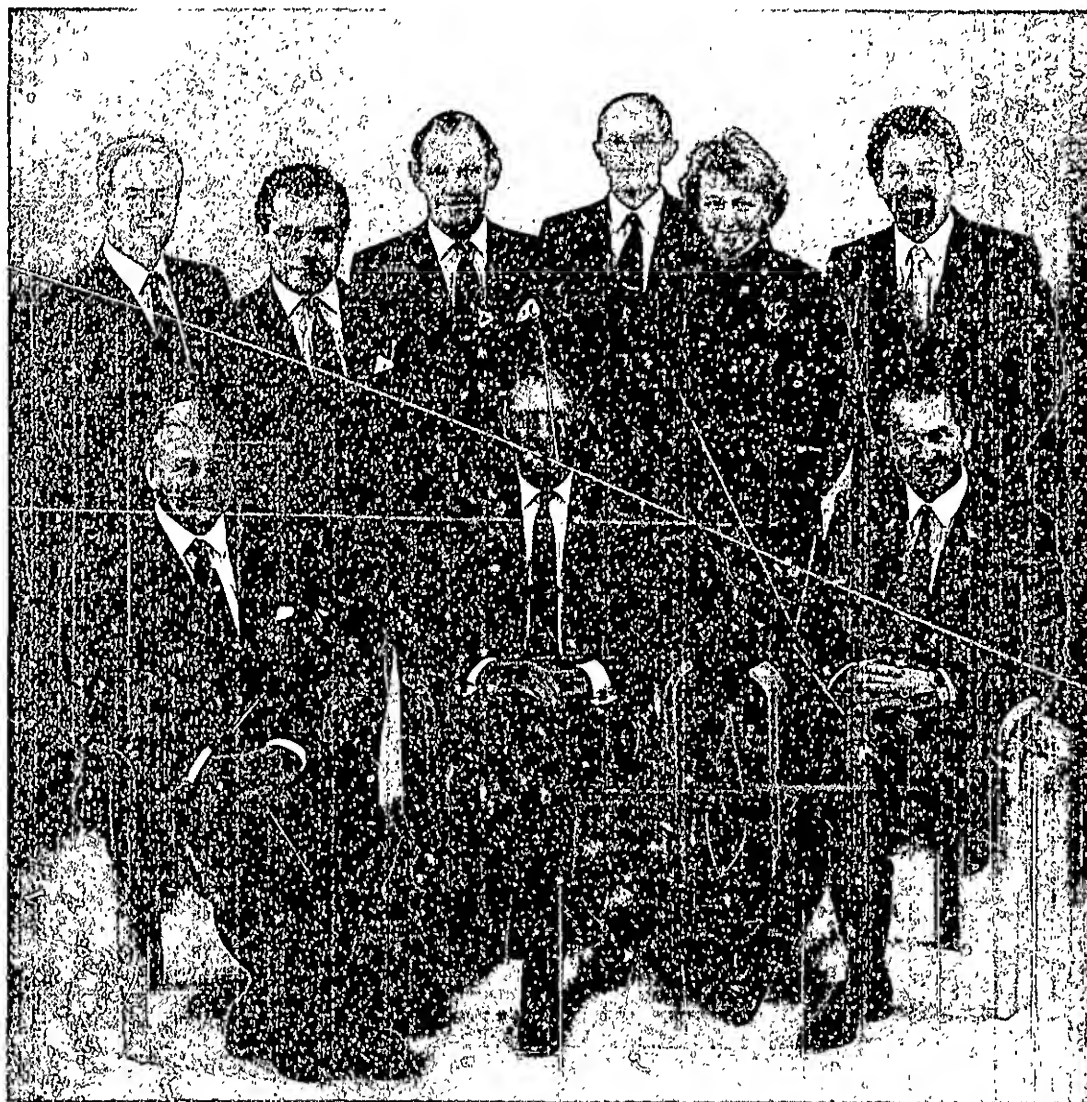
Earnings per share



Five year trading record

	1989	1988	Increase
Turnover (£000)	82,266	65,853	25%
Operating profit (£000)	6,699	5,050	33%
Profit before taxation (£000)	6,052	4,710	28%
Earnings per Ordinary Share (PENCE)	8.51	7.56	13%
Dividends per Ordinary Share (PENCE)	3.0	2.5	20%

CHAIRMAN'S STATEMENT



*Back row from left to right: John Cockburn, William Lazarus, Francis Howard, Michael Smith, Jennifer Priestley, Philip Punter
Front row from left to right: Viscount Bridgeman, John Hann, Michael Rogers.*

CHAIRMAN'S STATEMENT

INTRODUCTION

In my first year as Chairman, I am delighted to be able to report on another year of sound progress for your Company which again has achieved record levels of turnover and profit. It has been particularly gratifying to see the substantial contribution shown by our two recent acquisitions in the specialist personnel field which have justified our decision to expand further in this area.

SUMMARY OF RESULTS

Turnover for the year increased by 25% from £65.85 million to £82.27 million. In spite of significantly higher interest costs, profit before tax increased by 28% from £4.71 million to £6.05 million and earnings per share increased by 13% from 7.56p to 8.51p. Indeed, after adjusting earnings per share in 1988 for a full tax charge, the same as in 1989, EPS growth exceeded 16%. These results include a contribution of £1.1 million from Hewitson-Walker since its acquisition in August.

DIVIDENDS

Your Directors are recommending the payment of a final dividend of 2.0p per Ordinary Share to be paid on 15th June 1990 to shareholders on the register at the close of business on 24th May 1990, making a total dividend for the year of 3.0p per share. This represents an increase of 20% over last year's net dividend of 2.5p per share and reflects your Directors' confidence in the growth prospects of your Company and its markets.

OPERATING RESULTS

BNA, our Nursing Agency Division, had an excellent year with operating profit increasing by 18% from £3.0 million to £3.6 million. During the year we continued to increase our branch network, thereby further strengthening the base for long term organic growth, and we currently operate out of 130 branches nationwide, compared with 112 a year ago. In a typical week, BNA nurses and carers carry out some 12,500 assignments, and we remain by far the largest supplier of temporary nursing in the country. In addition, a major investment in BNA's data processing systems to support the existing operations and their projected growth for many years is now complete.

In my interim statement I referred to the strategy being adopted by NMS, our Hospitals and Nursing Home Division, of increasing our emphasis on acute care at two of our hospitals. While we achieved our objective in terms of increasing income per day, it took longer than expected to regain our target levels of occupancy. The overall occupancy rate therefore fell for the year as a result of which operating profit fell by 13% to £990,000. However, whilst temporarily painful, this strategy has begun to pay off and since November last year NMS has been achieving its targeted levels of profitability.

NMD, our Doctors' Deputising Division, grew more slowly than expected, primarily due to the lower number of calls made in the exceptionally mild winter last year. Even so, the Division increased its operating profit by 6% from £577,000 in 1988 to £610,000.

CHAIRMAN'S STATEMENT

Both our Specialist Personnel Divisions have shown significant levels of growth. Scott-Grant's operating profit increased by 30% from £774,000 to £1,009,000 on turnover of £8.6 million, an increase of 27% over last year's figure of £6.7 million. Hewitson-Walker produced pre-tax profits of £2.8 million for their year ended 8th October 1989 compared with £2.1 million in 1988, an increase of 33% in absolute terms and 8% over the budget they had established at the time of the acquisition of £2.6 million.

ACQUISITIONS & INVESTMENTS

Your Board's strategy remains unchanged. It is to continue to develop the Company's presence in both the health care and specialist personnel markets where we see continuing growth potential.

Our most significant acquisition in 1989 was in August when we acquired Hewitson-Walker Limited for an initial consideration of £12.42 million. A further payment of £960,000 was made in December under the terms of the acquisition agreement. Its primary business is the temporary placement of qualified and part-qualified accountants in the Greater London area. We see Hewitson-Walker as a logical extension of our specialist personnel business and its results, both before and after its acquisition, support our firm belief in the strength and resilience of the specialist personnel sector, in contrast with many general employment agencies.

In January 1989, BNA completed the acquisition of Nurse-Call, a nursing agency with

branches in Colchester, Chelmsford and Ipswich, for a consideration of £420,000. Further acquisitions were made of agencies in Gosport, Harlow, Stoke-on-Trent and Rye.

In September, NMS acquired the business of Woodlands Nursing Home, a 41 bed residential nursing home located in Whitby, North Yorkshire for £500,000.

In July, we announced that we had entered into a joint venture with Nutri/System, Inc. whereby a company called Nutri/System (United Kingdom) Limited has been established and granted the right to offer Nutri/System, Inc.'s medically approved weight-loss programme, encompassing counselling as well as the provision of dietary foods, in the United Kingdom. Seven centres are now open and fully operational, but it is still too early to predict the profitability of the project.

We have today announced the acquisition of Medical Emergency Duty Service (MEDS), a doctors' deputising service based in Manchester, for a consideration of £1.6 million in cash. This acquisition is a logical extension to our existing centres in the North West of England.

MEDICAL RECRUITERS OF AMERICA, INC.

Your Board has also today announced the proposed \$40.8 million acquisition of MRA, a travel nursing agency based in Florida and California, supplying temporary nurses on medium term contracts to hospitals across the United States. BNA is already the

CHAIRMAN'S STATEMENT

largest nurses agency in the United Kingdom and with MIRA, which is one of the largest suppliers of travel nurses in America, we will have the opportunity to exploit this fast growing market.

We are confident that this acquisition will greatly enhance your Company's growth prospects and further details are given in the circular being sent to shareholders today.

RIGHTS ISSUE AND PRIVATE PLACEMENT OF DEBT

In order to provide funds in connection with these two acquisitions, we have today announced a one for three rights issue as well as arrangements for a private placement of dollar denominated Senior Unsecured Notes in the United States, which together will raise some £27.5 million. Although this mix of equity and debt together with the corresponding goodwill write-off will initially have an adverse effect on gearing, our interest cover will remain strong. Gearing should fall rapidly during 1990 and, having limited the amount of new equity issued, future earnings per share growth should be enhanced.

BALANCE SHEET

During the year we replaced part of our short term borrowings with medium term debt. We also entered a sale and leaseback scheme with New Hall Hospital on terms which enable us to repurchase it in the future. This has had the dual advantage of releasing funds which would otherwise be tied up in property whilst retaining the benefit for the Company should

the freehold value of the hospital increase significantly.

As a result of high capital expenditure our gearing, after taking account of both long and short term debt, at 31st December 1989 remained almost unchanged at 69%. Our interest cover was 10.4 times, which to a service business is a more relevant indicator of the Group's strength.

STAFF AND SHARE OPTION SCHEMES

We believe in matching effort with reward and to this end your Directors are recommending that, commencing this year, the Company introduces an employees' profit incentive scheme whereby all employees will be further rewarded by the continued success of the Group through the receipt of bonus shares. We are also proposing the introduction of a SAYE share purchase scheme, open to all our permanent employees, as well as the adoption of small changes to our Employee Share Option Scheme to bring it into line with existing practice and legislation. Full details will be provided with the Annual Report for approval by shareholders at the time of the Annual General Meeting.

Our performance in 1989 was again due to the constant efforts of our staff up and down the country, whose quality, dedication and commitment I believe to be of the highest order and on your behalf I thank them all.

It is a great privilege for me to be part of such a dedicated team and to be able to report such favourable results to shareholders for 1989.

CHAIRMAN'S STATEMENT

Fortunately, the opportunities for our future are also very favourable.

THE FUTURE

In the last two years we have generated an important presence in each of the businesses in which we have sought to establish ourselves. These are in areas where we believe there to be significant opportunities for organic growth upon which we intend to concentrate. For example, the projected restructuring of the National Health Service — clearly the most radical since its inception over 40 years ago — will impact each of our health care divisions. It is our belief that the services we currently provide, and those we have the expertise to develop, will enable us to benefit from the proposed changes in the long term.

The projected demographic trends and shortage of skilled nurses will make the services provided by BNA even more important, as temporary staffing becomes more critical to the provision of

health care services. This same shortage of skilled staff in other key areas will also provide opportunities for the growth of our Specialist Personnel Divisions.

CURRENT TRADING

In the early weeks of 1990, it is apparent that many Health Authorities have restricted their level of spending in order to meet their budgetary targets. This has had an adverse effect on the business of BNA. This is a pattern which we have seen in the past and we anticipate that following their March year ends, Health Authorities' spending should revert to normal levels and over the full year BNA should continue to benefit from real increases in National Health Service funding. Furthermore, Scott-Grant and Hewitson-Walker have had a particularly good start to the year. I am therefore confident that 1990 will be another year of good progress for your Company.

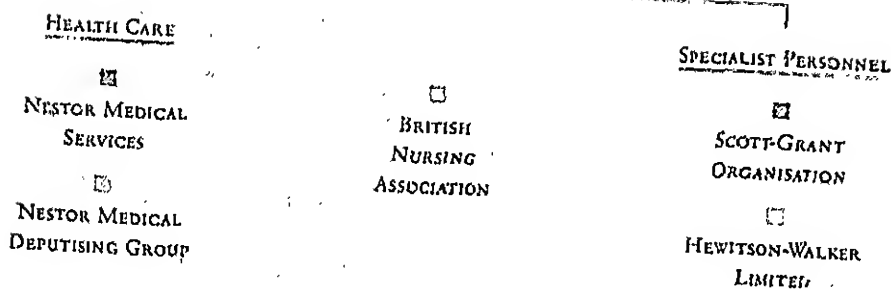


John Hann,
Chairman

22nd March 1990

CHIEF EXECUTIVE'S REVIEW

NESTOR-BNA plc



INTRODUCTION

1989 was a good year for the Nestor-BNA group of companies. As the economy weakened, the strength and resilience of our two markets, namely health care and specialist personnel, became more and more evident and our overall performance reflected this.

As a group, we have now assembled a combination of well-run companies capable of providing organic growth. We believe these opportunities to expand will be greatly enhanced by developments occurring in both our markets. The National Health Service is entering a new era of reform from which our health care businesses should be able to benefit. Our specialist personnel businesses are achieving continued levels of growth from the increasing tendency of employers to rely on temporary skilled personnel.

Our three health care businesses, namely

nursing agencies, hospitals and nursing homes, and doctors' deputising services, have historically given us a presence in this fast growing sector. Our recent acquisitions of MRA, MEDS and Woodlands confirm our commitment to this market.

The British Nursing Association (BNA), our largest company, has given us considerable experience in the supply of temporary specialist personnel. We believe that our acquisition of the Scott-Grant Organisation in 1988 and the more recent addition of Hewitson-Walker represent logical extensions to our specialist personnel skills and provide an important foothold in new markets in which to expand.

We are confident of our markets and of the ability of our companies to exploit them. It is now our intention to develop from the sound operating base which we have put in place.



59,500 nurses and carers are registered with BNA



Locally based nurses are available for any assignment



Temporary nurses are supplied to both private and NHS hospitals

THE BRITISH NURSING ASSOCIATION (BNA)

During 1989, BNA nurses and carers provided 8.2 million hours of care. This is 600,000 hours more than in 1988 and represents a considerable contribution to health care delivery in the UK. Turnover increased by 17% from £48.3 million to £56.5 million and operating profit rose by 18% from £3.0 million to nearly £3.6 million.

BNA's main business is the supply of care at short notice. Each day BNA branches deal with requests for nurses who are often needed to work later that day. Assignments tend to be fairly short with the average assignment length being about 12 hours.

The necessary fast response and the typically short assignment lengths mean that BNA has to provide a local service. In order to ensure our ability to do this and to provide the basis for future growth,

BNA increased its branch network in 1989 from 105 to 130 branches. This was achieved both by opening new branches as well as acquiring new ones, the most significant purchase being that of Nurse-Call, an agency with three branches based in East Anglia, which was acquired in January.

BNA currently has approximately 39,500 nurses and 20,000 carers on its register making 59,500 in all and in a typical week carries out some 12,500 assignments. The work patterns of individual nurses and carers are irregular and largely random. Therefore, sophisticated payroll, invoicing and management information systems are essential for BNA to operate effectively and efficiently.

Since 1976, BNA has continually developed and refined its computer systems to cope with this

CHIEF EXECUTIVE'S REVIEW

unusual workload since these have long been regarded by the division as essential to maintaining its competitiveness. To maintain a competitive edge as the business grows, work has continued throughout 1989 on rewriting and

upgrading BNA's main computer systems. Following exhaustive testing, these are now operating and they have the speed and capacity to accommodate BNA's projected volume increases for the foreseeable future.

MEDICAL RECRUITERS OF AMERICA (MRA)

We recently announced that we have conditionally agreed to acquire Medical Recruiters of America (MRA), one of the leading suppliers of travel nurses in the United States of America.

Travel nursing involves the placement of qualified nurses in hospitals on a contractual basis for assignments which typically last for between eight and twenty six weeks. Under these contracts, rented accommodation is provided and the expense of travelling to and from an assignment, wherever it may be in the United States, is reimbursed.

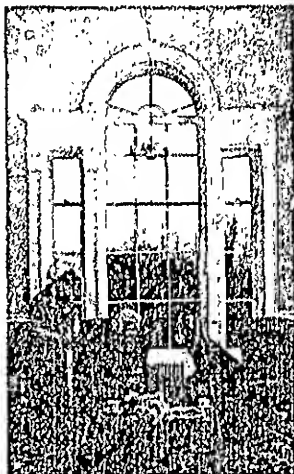
Demand for nurses in the United States is rising due to a number of factors, including an increase in the number of elderly people and changes in medical practices as a result of the introduction of new technology. This increasing demand, in the face of flat to declining supply, is creating severe staffing problems and is evidenced by the growing importance of temporary nursing in the United States, an industry with an estimated turnover of \$1 billion per annum.

Travel nursing, which for a variety of reasons is attractive to both hospitals and nurses, is one of the

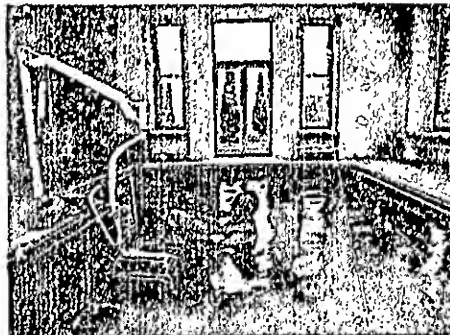
fastest growing sectors of the temporary employment market in the health care industry in the United States. MRA's trading record shows considerable growth in both turnover and operating profit. Turnover rose from \$7.0 million in 1987 to \$35.9 million in 1989 while operating profit rose from \$239,000 to \$6.1 million during the same period.

We are confident of the ability of MRA's existing management to continue to operate the business successfully. Mr. Norman Thoms, MRA's current president, has agreed to stay on at least until 31st December 1990 and steps are being taken to ensure management succession.

We believe that this acquisition represents a logical addition to the Group's nursing agency division, as well as a major strategic step into the United States in a segment of the temporary nursing sector with considerable growth potential. We are also confident of BNA's ability to use its considerable experience and expertise in assisting MRA to achieve and control the high growth of which we believe it is capable.



Caring for the elderly



Hydrotherapy pool at Unsted Park



Radiology Department at New Hall Hospital

NESTOR MEDICAL SERVICES (NMS)

Although this division achieved an increase in turnover of 11% from £7.0 million to £7.8 million, operating profits fell over the year 13% from £1,132,000 to £990,000.

A major contribution to the impressive profit growth of this division in 1988 was its success in increasing the proportion of acute rather than long-stay patients at our rehabilitation centre, Unsted Park, and at our psychiatric hospital, Ticehurst House.

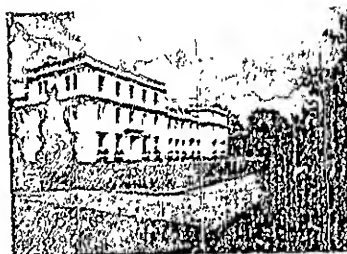
The reason for this is that income per day generated from acute care is significantly higher than that from long term care. In the long term this strategy will produce greater levels of growth. However, as this policy is effected, occupancy can be expected to fall since lengths of stay of acute care patients at these hospitals tend to be measured in

terms of weeks rather than years, as a result of which occupancy levels are more volatile. As this strategy was adopted more forcefully during 1989, and the level of long term admissions reduced, occupancy fell. Although the anticipated increase in income per day was achieved, occupancy levels took longer than expected to recover and hence the short term decrease in profitability.

Notwithstanding these changes, Ticehurst House successfully opened its head injury unit during the year. As well as adding to the wide range of rehabilitation services offered by the division, it will also enhance the hospital's profitability as occupancy in the unit increases.

New Hall Hospital improved its operating profit over 1988 by 11%. Admissions increased by 6% while average length of stay reduced to 3.9 days —

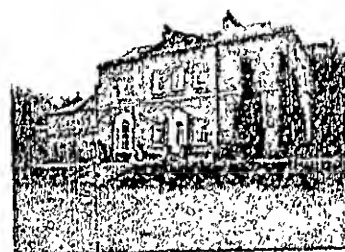
CHIEF EXECUTIVE'S REVIEW



Ticehurst House



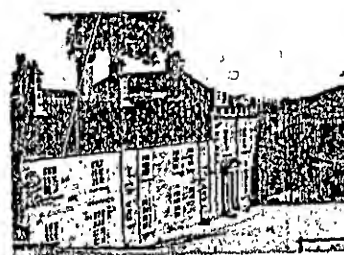
New Hall Hospital



Unsted Park



Thames Bank



Woodlands

both in line with national trends. Day cases increased by 43%, which was well above the national average.

The nursing homes had mixed results: Thames Bank had another good year although there was slight erosion in its margins. The nurses' pay rise and recruiting difficulties affected costs adversely, but steps have already been taken to mitigate these factors.

Results at Little Dean House were unsatisfactory as both occupancy and margins fell. We are now in the final stages of completing a radical re-appraisal of the services and facilities offered by Little Dean and changes necessary to increase levels of profitability have already been implemented.

In September NMS acquired Woodlands, a 41 bed nursing home in Whitby, North Yorkshire, which is of the same high quality as Thames Bank

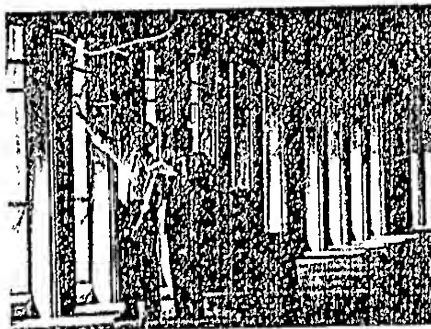
and Little Dean. This is the first nursing home we have owned in the North of England and, given the significantly lower property prices that are found in the North, we shall be looking for further opportunities in this area.

Looking forward, we shall continue to expand this part of the Group by acquiring more hospitals and nursing homes as opportunities arise. However, 1989 was characterised by very significant increases in prices paid for both hospital and nursing home beds. At these levels we would have had difficulty in making acceptable levels of return had we invested. We are therefore not surprised by recent signs that prices are returning to what we consider to be more realistic levels and we shall only make acquisitions in this market when we are satisfied that we can achieve attractive returns and reasonable levels of growth.

CHIEF EXECUTIVE'S REVIEW



Conducting a time and motion study



Improving inventory control



Monitoring equipment efficiency

SCOTT-GRANT

In their first full year as part of Nestor-BNA, Scott-Grant recorded an impressive 27% increase in turnover to £8.6 million and a 39% increase in operating profits from £774,000 to £1,009,000.

The Scott-Grant contract specialist market remained buoyant throughout 1989 despite a general downturn in the UK economy. It has consistently been our contention that the temporary placement of skilled personnel has a resilience that is absent from the general recruitment market, and this has again been borne out by the increase in turnover and operating profit of both the management and technical services divisions, the main part of this business. Unlike BNA, where typical assignments are measured in hours, Scott-Grant personnel tend to work full-time for several weeks.

December 1989 saw the launch of a new specialist division within Scott-Grant Management Services. This concentrates on supplying contract staff to increase productivity in administrative areas. These temporary personnel specialise in "Business and Information Systems", particularly in the commercial sector. Initially the new management team will canvass and develop the London region to maximise the benefits to be derived from the current changes in the computerisation of systems and information flow technology.

To date Scott-Grant have undertaken or assisted with over 16,000 different projects and during 1989 over 125 major companies became new clients of Scott-Grant.

CHIEF EXECUTIVE'S REVIEW



Approximately 400 temporary staff are placed on assignments every week



Assignments last an average of 10 weeks



Qualified and part-qualified accountants supplied on a temporary basis

HEWITSON-WALKER

Hewitson-Walker was Nestor-BNA's most significant acquisition in 1989. The Company was established in 1972 by John Walker, its managing director, and its primary business is the supply of qualified and part-qualified accountants on a temporary basis in the Greater London area to more than 600 clients.

Like Scott-Grant personnel, Hewitson-Walker's accountants tend to work full-time on their assignments which currently average about 10 weeks in duration. In a typical week about 400 temporary staff will be out on assignment. In common with BNA and Scott-Grant, Hewitson-Walker charges fees based on the remuneration of the temporary staff it supplies.

In line with other skilled personnel, we see the demand for temporary accountants increasing as

various financial disciplines become more and more specialised. At the same time, the employment of skilled personnel on a temporary basis is increasingly recognised as a viable, alternative resource to address non-routine tasks. This we believe adds to the value and resilience of Hewitson-Walker and has been demonstrated by the substantial growth in pre-tax profits over the last few years. In its financial year ended 8th October 1989, Hewitson-Walker produced pre-tax profits of £2.8 million compared to £2.1 million in its previous year and following its acquisition in August 1989 contributed £1.1 million to the Group's operating profit.

We welcome John Walker and his colleagues to our team.



Deputy GP making a home visit



The deputising service control room answering calls



All Deputy GPs are in constant contact with the control room

NESTOR MEDICAL DEPUTISING GROUP (NMD)

Although the number of emergency calls handled by the deputising group was significantly less than had been anticipated, this division increased profits from £577,000 in 1988 to £610,000 in 1989. Last year's exceptionally mild winter followed by prolonged good weather during 1989 led to a reduced number of minor acute episodes to which doctors were called out, although there was no change in the usage pattern of our client GPs.

We have recently announced the acquisition of Medical Emergency Duty Service (MEDS), a long-established deputising service based in Manchester.

This acquisition is a logical extension of our existing doctors' deputising division which is based in the North West and the West Midlands.

Doctors' deputising services continue to represent an important part of the delivery of primary health care in the community. Although the changes brought about by the new GP contracts may affect the use of these services by some doctors, most find them to be such an integral part of patient care that the new contract could provide us with yet more opportunities.

CHIEF EXECUTIVE'S REVIEW

NUTRI/SYSTEM

During 1989 Nestor-BNA signed a joint venture agreement with Nutri/System, Inc., whereby a new company called Nutri/System (United Kingdom) Limited was established and given the right to offer Nutri/System's medically approved weight-loss programme in the United Kingdom. Besides

supplying controlled amounts of nutritionally-balanced food the Nutri/System programme involves considerable counselling and support, with the objective not only of helping its clients lose weight in a safe, controlled way but also of helping them maintain their new reduced weight.



Counselling session at a Nutri/System centre

Progress to date includes the establishment of an exceptionally experienced medical advisory board, the procurement of a variety of foods which meet all EEC requirements regarding content and labelling and the recruitment and training of a chief executive, management team, nutritional advisers and behavioural counsellors.

Seven Nutri/System centres are now in operation in the Greater London area and approximately 500 clients are already on the Nutri/System programme. Different advertising approaches are being tried and evaluated.

GROUP OUTLOOK

Demographic trends will produce increased demand for health care services and shortages of specialist skills of many kinds. Employers across the commercial and industrial spectrum will be compelled to focus their attention on efficient use of labour as the answer to recruitment difficulties and increases in unit staff costs. Temporary staffing will frequently provide an effective solution.

1992 is likely to have some effect on temporary work. Temporary workers, part-time workers and others are treated differently by the countries within the EEC and as a result genuine competition within the single market cannot exist. The Commission is therefore likely to concern itself with the status and

working conditions of temporary workers however they obtain their employment.

The National Health Service and Community Care Bill will provoke changes in the delivery of health care but the National Health Service will continue to be available to all, regardless of income, and to be financed mainly out of general taxation. The services we provide will continue to be central to it.

Each of our companies has a management team with many years' experience in their respective industries. As we face the opportunities and the uncertainties of the 1990's we start with a stronger group and a stronger team than ever before.

DIRECTORS' REPORT

The Directors present their Report and Consolidated Financial Statements for the year ended 31st December 1989.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Nestor-BNA plc is a holding company for a group of companies in the health care and specialist personnel sectors.

The principal activities of the Group are:

- the provision of nursing services through the largest nursing agency network in the United Kingdom
- the provision of care in a medical rehabilitation centre, an acute surgical hospital, a psychiatric hospital and three nursing homes
- the provision of doctors' deputising services in the North West of England and the West Midlands
- the provision, on a temporary contract basis, of specialist supervisory, technical and computer personnel throughout the United Kingdom
- the provision, on a temporary basis, of qualified and part-qualified accountants primarily in the Greater London area.

In August 1989, the Company acquired Hewitson-Walker Limited for an initial consideration of £12.42 million, satisfied by the issue of 10,999,986 new Ordinary Shares. In December 1989, under the terms of the acquisition agreement, an additional consideration of £956,242 was paid which was funded by the issue of a further 857,000 Ordinary Shares.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £3,932,000. An interim dividend of 1.0p per Ordinary Share was paid on 31st October 1989. The Directors recommend a final dividend of 2.0p per Ordinary Share. Following the payment of all dividends for the year, £2,434,000 will have been transferred to reserves.

FIXED ASSETS

Information relating to the changes in fixed assets is given in Notes 12 and 14 to the Financial Statements.

DIRECTORS

The Directors who served during the year were:

R H Burton*	F J A Howard*
(resigned 23rd May 1989)	W I D Lazarus
H J Hann*	J Priestley
M G Rogers	P Punter
Viscount Bridgeman*	M H D Smith
J J Cockburn	

*Non-Executive Directors

The following Directors will retire by rotation at the Annual General Meeting, and being eligible, will offer themselves for re-election:

J J Cockburn
F J A Howard
P Punter

Neither J J Cockburn nor P Punter has a contract with the Company of more than one year's duration. F J A Howard has no service agreement.

DIRECTORS' REPORT

DIRECTORS' INTERESTS

The beneficial and family interests of the Directors in the share capital of the Company were:

	Ordinary 10p Shares		Employee Share Option Scheme	
	31.12.89 Number	31.12.88 Number	31.12.89 Number	31.12.88 Number
H J Hann	30,000	33,333	—	—
M G Rogers	919,131	980,230	108,000	58,000
Viscount Bridgeman	26,899	22,416	—	—
J J Cockburn	35,000	40,000	61,000	38,000
F J A Howard	12,000	6,666	—	—
W I D Lazarus	1,200	1,000	87,000	—
J Priestley	510,550	505,150	61,000	38,000
P Punter	153,962	156,911	50,000	33,000
M H D Smith	145,805	156,911	76,000	48,000

Notes:

1 None of the Directors has any non-beneficial interest in the Company's share capital.

2 Between 31st December 1989 and 22nd March 1990, there were no changes in the interest of the Directors in the share capital of the Company.

3 None of the Directors had any beneficial interest in any contracts or arrangements (apart from contracts of service) to which the Company or any subsidiary was party during or at the end of the financial period.

The Directors are proposing the introduction of a profit incentive scheme and a SAYE share scheme, both of which will involve the granting of shares to employees. They are also proposing that certain changes be made to the Employee Share Option Scheme. Full details are provided in a circular sent to shareholders with this annual report.

SUBSTANTIAL SHAREHOLDERS

On 22nd March 1990, the following shareholders were interested in 5% or more of the Company's ordinary share capital:

SHARE CAPITAL

Details of the changes in the authorised and issued share capital of the Company during the year ended 31st December 1989 are given in Note 20 to the Financial Statements.

SHARE OPTION SCHEMES

Information regarding existing share options is given in Note 26 to the Financial Statements.

Shareholder	Number	Percentage of Issued Share Capital
The Prudential Assurance Co Ltd	3,831,662	7.1
3i plc	3,618,788	6.7
Citicorp Capital Investors Europe Ltd	2,789,423	5.1

DIRECTORS' REPORT

DIRECTORS' AUTHORITY TO ISSUE SHARES

A Special Resolution will be put to the Annual General Meeting on 16th May 1990, seeking authority for the Directors to issue shares of the Company within certain restrictions as set out in the Notice of that Meeting. This Resolution is in similar terms to the corresponding Resolution in last year's Notice of Annual General Meeting, save that it also extends to the issue of shares pursuant to the relevant additional authority to allot shares granted at the Extraordinary General Meeting held on 9th April 1990 in connection with the increase of the Company's authorised share capital from £7,600,000 to £9,600,000. The figure of £271,000 referred to in the Resolution represents approximately 5% of the Company's present issued share capital. If approved by the Meeting, this power will continue until the next Annual General Meeting of the Company.

FUTURE DEVELOPMENTS

The Group intends to continue to grow both organically as well as by acquisition when suitable opportunities arise.

POST BALANCE SHEET EVENTS

On 22nd March 1990, the Company announced that it had conditionally agreed to acquire the businesses of Medical Recruiters of America, Inc. and MRA — California, Inc., collectively known as MRA, a travel nursing agency business based in the United States, for \$40.8 million (£24.7 million).

On 22nd March 1990, the Company announced that it had agreed to acquire the business of Medical Emergency Duty Service (MEDS), a doctors' deputising service based in Manchester for £1.6 million.

In order to provide funds for these acquisitions the Group also announced on 22nd March 1990 that it was intending to raise some £27.5 million through a rights issue and through a private placement of US dollar denominated Senior Unsecured Loan Notes.

Further details are provided in Note 22 to the Financial Statements.

CHARITABLE AND POLITICAL DONATIONS

No charitable or political donations in excess of £200 were made during the year.

TAXATION STATUS

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

EMPLOYMENT OF DISABLED EMPLOYEES

It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, in common with all employees.

EMPLOYEE INVOLVEMENT

Various methods are used by the Company to ensure that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Company's performance.

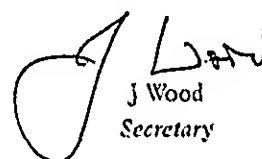
Internal circulars and newsletters are issued regularly and regular consultation and discussions between management and their staff are strongly encouraged.

263 employees have now been granted options under the Group Employee Share Option Scheme.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a Resolution proposing the re-appointment of Coopers & Lybrand Deloitte, Chartered Accountants, as auditors to the Company will be put to the Annual General Meeting.

BY ORDER OF THE BOARD


J Wood
Secretary

28th March 1990

NON-EXECUTIVE DIRECTORS

JOHN HANN

Joined the Board in November 1986, and was appointed Chairman in May 1989. He was previously chairman of Boots the Chemist Limited until his retirement in 1984. He is a non-executive director of Clifford Foods plc.

VISCOUNT BRIDGEMAN

Joined the Board in November 1988. He is a Director of Guinness Mahon & Co. Limited and was previously on the Board prior to the Company's flotation. He was formerly a director of Henderson Crosthwaite Limited and is currently a Special Trustee for Hammersmith and Acton Hospitals.

FRANCIS HOWARD

Joined the Board in June 1987. He is a director of Howard Perry Associates Limited, business and financial consultants. He was previously finance director of Charter Consolidated PLC and is currently a non-executive director of Hawtal Whiting Holdings plc.

In addition to their normal duties as Board Members the non-executive Directors constitute two special purpose committees, The Audit Committee and The Compensation Committee.

AUDITORS' REPORT

TO THE MEMBERS OF NESTOR-BNA plc

We have audited the financial statements on pages twenty two to forty in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 1989 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte
Coopers & Lybrand Deloitte
Chartered Accountants
London

28th March 1990

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1989

	Notes	1989 £000	1988 £000
TURNOVER	2	82,266	65,853
Cost of sales		(65,648)	(52,137)
GROSS PROFIT		16,618	13,716
Administrative expenses		(9,919)	(8,666)
OPERATING PROFIT	3,4,5	6,699	5,050
Investment income	6	88	99
Interest payable	7	(735)	(439)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,052	4,710
Taxation	8	(2,120)	(1,524)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,932	3,186
Dividends	10	(1,498)	(1,292)
RETAINED PROFIT FOR THE YEAR	9,21	2,434	1,894
EARNINGS PER SHARE	11	8.51p	7.56p

CONSOLIDATED BALANCE SHEET

at 31 October 1989

	Notes	1989 £000	1988 £000
FIXED ASSETS:			
Tangible fixed assets	12	13,231	11,813
Investments	14	574	—
TOTAL FIXED ASSETS		13,805	11,813
CURRENT ASSETS:			
Stocks	15	206	158
Debtors	16	13,967	9,858
Cash at bank and in hand		4,055	745
		18,228	10,761
CREDITORS:			
Amounts falling due within one year	17	(15,946)	(11,898)
NET CURRENT ASSETS/(LIABILITIES)		2,282	(1,137)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,087	10,676
CREDITORS:			
Amounts falling due after more than one year	18	(4,893)	(2,000)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(338)	(69)
		10,856	8,607
CAPITAL AND RESERVES:			
Called up share capital	20	5,418	4,077
Shares to be allotted		—	49
Share premium account	21	2,990	3,416
Profit and loss account	21	2,448	1,065
		10,856	8,607

The financial statements on pages twenty two to forty were approved by the Board of Directors on 28th March 1990 and were signed on its behalf by:

M G Rogers
W D Lazarus

M G Rogers Director
W D Lazarus Director

HOLDING COMPANY BALANCE SHEET

as at 31 December 1989

	Notes	1989 £000	1988 £000
FIXED ASSETS:			
Tangible fixed assets	12	2,480	—
Investments	14	24,931	11,548
TOTAL FIXED ASSETS		27,411	11,548
CURRENT ASSETS:			
Debtors	16	15,979	8,100
Cash at bank and in hand		1,711	1
		17,690	8,101
CREDITORS:			
Amounts falling due within one year	17	(10,619)	(3,957)
NET CURRENT ASSETS		7,071	4,144
TOTAL ASSETS LESS CURRENT LIABILITIES		34,482	15,692
CREDITORS:			
Amounts falling due after more than one year	18	(4,880)	(2,000)
		29,602	13,692
CAPITAL AND RESERVES:			
Called up share capital	20	5,418	4,077
Shares to be allotted		—	49
Share premium account	21	2,990	3,416
Merger reserve	21	17,084	4,238
Profit and loss account	21	4,110	1,912
		29,602	13,692

The financial statements on pages twenty two to forty were approved by the Board of Directors on 28th March 1990 and were signed on its behalf by:

M G Rogers
W I D Lazarus

M G Rogers Director
W I D Lazarus Director

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

for the year ended 31 December 1989

	1989 £000	1988 £000
SOURCE OF FUNDS:		
Profit on ordinary activities before taxation	6,052	4,710
Adjustment for items not involving the movement of funds:		
Depreciation	754	585
FUNDS GENERATED FROM OPERATIONS	6,806	5,295
FUNDS FROM OTHER SOURCES:		
Disposal of fixed assets	2,787	103
Long term finance lease obligation	2,393	—
Long term loan	2,500	—
Net proceeds of share issues	13,712	7
TOTAL SOURCE OF FUNDS	28,198	5,405
APPLICATION OF FUNDS:		
Dividends paid	1,124	1,132
Purchase of fixed assets	4,959	1,201
Tax paid	1,796	1,648
Repayment of long term loans	2,000	1,589
Goodwill acquired on acquisition of businesses	13,647	968
Purchase of investments	574	—
Premium paid on preference shares in respect of merged businesses	—	1,012
Loss arising in respect of previous revaluation	250	—
TOTAL APPLICATION OF FUNDS	24,350	7,550
NET SOURCE/(APPLICATION) OF FUNDS	3,848	(2,145)
THE NET SOURCE/(APPLICATION) OF FUNDS IS REPRESENTED BY THE FOLLOWING CHANGES IN WORKING CAPITAL:		
Stocks	48	22
Debtors	4,109	2,071
Creditors falling due within one year	(1,401)	(1,074)
	2,756	1,019
Movement in net liquid funds:	3,310	(171)
Cash at bank and in hand	(2,218)	(2,993)
Bank overdraft	3,848	(2,145)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings. Accounts are made up to the nearest Friday to 31st December each year.

BASIS OF CONSOLIDATION

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiaries. Merger accounting principles are followed in respect of acquisitions which satisfy the conditions set out in Statement of Standard Accounting Practice Number 23. In accordance with the principles of merger accounting, comparative data is restated where merger accounting has been applied, and accounting policies are adjusted to be consistent with those of the Group. Acquisition accounting is used in respect of acquisitions which do not satisfy the conditions for merger accounting.

DEPRECIATION

Depreciation of fixed assets is provided where it is necessary to reflect a reduction from book value at estimated residual value over the useful life of the asset to the Group. It is the Group's policy to maintain its properties in a state of good repair, and in the case of freehold properties, the Directors consider that the lives of these properties and their residual values are such that their depreciation is not significant. Accordingly, no depreciation is provided on freehold properties.

Other fixed assets are written off by equal instalments over their anticipated useful lives of between three and eight years.

STOCKS

Stocks are valued at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred taxation is provided on the liability method where, in the opinion of the Directors, it is probable that the liability will crystallise in the foreseeable future.

GOODWILL

Goodwill arises when the consideration paid for a business or company exceeds the fair value of the net tangible assets acquired. In the acquiring company's financial statements any goodwill arising is written off immediately against reserves at the date of acquisition.

CONTRIBUTIONS TO PENSION FUNDS

Contributions to pension funds are determined on the basis of recommendations made by independent qualified actuaries and are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the remaining working life of the employees in accordance with Statement of Standard Accounting Practice Number 24.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1989

NOTE 1 ACCOUNTING POLICIES *continued*

FINANCE LEASES

Where fixed assets are financed by leasing agreements that give rights approximately equivalent to ownership (finance leases) the assets are capitalised. The corresponding lease commitments are treated as obligations to the lessor.

NOTE 2 TURNOVER

Turnover represents the amount invoiced net of value added tax.

The amount attributable to each market supplied was:

	1989 £000	1988 £000
United Kingdom	82,222	65,826
Other countries	44	27
	<u>82,266</u>	<u>65,853</u>

Turnover by division is as follows

Nursing Agencies	56,452	48,277
Hospitals and Nursing Homes	7,801	6,991
Specialist Personnel — Scott-Grant	8,554	6,740
— Hewitson-Walker	5,120	—
Doctors' Deputising Services	4,339	3,845
	<u>82,266</u>	<u>65,853</u>

NOTE 3 OPERATING PROFIT

Operating profit by division is as follows

Nursing Agencies	3,550	3,006
Hospitals and Nursing Homes	990	1,132
Specialist Personnel — Scott-Grant	1,009	774
— Hewitson-Walker	1,138	—
Doctors' Deputising Services	610	577
Central Costs	(598)	(439)
	<u>6,699</u>	<u>5,050</u>

Operating profit is stated after charging/(crediting)

Depreciation	754	585
Hire of plant and machinery	164	115
Auditors' remuneration	99	77
Rents received net of outgoings	(39)	(30)
Rent of premises	565	372

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

	1989 £000	1988 £000
NOTE 4 EMPLOYEES		
(a) Employee costs		
Wages and salaries	8,450	7,232
Social security costs	662	531
Other pension costs	165	155
	9,277	7,918

	1989 Number	1988 Number
(b) Employee numbers		
The average number of persons employed by the Group during the year was	1,610	1,393

(c) Higher paid employees		
The number of employees other than Directors whose emoluments (excluding pension contributions) were in excess of £30,000 was		
£30,001-£35,000	—	2
£35,001-£40,000	3	2
£40,001-£45,000	1	2
£45,001-£50,000	3	1
£55,001-£60,000	1	—

	1989 £000	1988 £000
NOTE 5 DIRECTORS		
Employee costs include the following remuneration in respect of Directors of Nestor-BNA plc		
Fees	36	20
Other emoluments (including pension contributions)	470	392
	506	412

The Directors' remuneration disclosed above includes amounts (excluding pension contributions) paid to		
The Chairman (from 23rd May to 31st December 1989)	16	12
The highest paid Director	96	90

The previous Chairman received emoluments of £5,000 from 1st January to 22nd May 1989.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1989

NOTE 5 DIRECTORS *continued*

The number of other Directors who received fees and other emoluments (excluding pension contributions) in the following ranges was

	1989 Number	1988 Number
£0 – £5,000	—	1
£5,001 – £10,000	2	2
£15,001 – £50,000	—	3
£55,001 – £60,000	1	1
£60,001 – £65,000	2	—
£65,001 – £70,000	—	1
£75,001 – £80,000	1	—
£90,001 – £95,000	1	—

	1989 £000	1988 £000
NOTE 6 INVESTMENT INCOME		
Bank interest receivable	88	87
Other interest receivable	—	12
	88	99

NOTE 7 INTEREST PAYABLE		
On bank loans, overdrafts and other loans wholly repayable within five years	636	437
On other loans	99	2
	735	439

NOTE 8 TAXATION		
Corporation tax at 35% based on adjusted profits for the year	1,903	1,553
Overprovision in previous years	(52)	(28)
Deferred tax	269	(1)
	2,120	1,524

NOTE 9 RETAINED PROFIT FOR THE YEAR		
Profit dealt with in the accounts of the Holding Company	2,198	1,168
Profit retained by subsidiary companies	236	726
	2,434	1,894

Under the provisions of Section 228(7) of the Companies Act 1985, the Company has not published its own profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 10 DIVIDENDS

Dividends paid

Ordinary 10p shares: 1p per share (1988: 0.8p)

Paid by Scott-Grant prior to merger

Dividends proposed

Ordinary 10p shares: 2p per share (1988: 1.7p)

	1989 £000	1988 £000
Ordinary 10p shares: 1p per share (1988: 0.8p)	415	282
Paid by Scott-Grant prior to merger	—	300
Dividends proposed		
Ordinary 10p shares: 2p per share (1988: 1.7p)	1,083	710
	1,498	1,292
	1989	1988
NOTE 11 EARNINGS PER SHARE		
Earnings per share	8.51p	7.56p

The earnings per share is calculated on earnings of £3,932,612 (1988: £3,186,177) and on the weighted average number of shares of 46,227,525 (1988: 41,266,626). Shares issued in connection with the mergers with New Hall Hospital and Scott-Grant have been included in the calculations as if they were in issue for the whole of 1989 and 1988. Earnings per share for the year ended 31st December 1988 has been adjusted in accordance with the provisions of Statement of Standard Accounting Practice Number 3 which cover subsequent rights issues.

No figure for fully diluted earnings per share for 1989 is shown since the difference from the basic earnings per share is less than 5%.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 12 TANGIBLE FIXED ASSETS — GROUP

COST OR VALUATION

	Freehold Land and Buildings £000	Plant, Equipment, Fixtures & Fittings £000	Total £000
At 1st January 1989	9,263	4,213	13,476
Additions on acquisition	—	76	76
Additions	2,587	2,296	4,883
Disposals	(2,500)	(1,144)	(3,644)
At 31st December 1989	9,350	5,441	14,791

DEPRECIATION

	Freehold Land and Buildings £000	Plant, Equipment, Fixtures & Fittings £000	Total £000
At 1st January 1989	—	1,663	1,663
Additions on acquisition	—	44	44
Eliminated on disposals	—	(901)	(901)
Charge for the year	—	754	754
At 31st December 1989	—	1,560	1,560

NET BOOK VALUE

	Freehold Land and Buildings £000	Plant, Equipment, Fixtures & Fittings £000	Total £000
At 31st December 1989	9,350	3,881	13,231
At 31st December 1988	9,263	2,550	11,813

	£000	£000	£000
The cost or valuation of fixed assets held at 31st December 1989 was represented by	62	—	62
1986 valuation	6,325	—	6,325
1987 valuation	2,963	5,441	8,404
Cost	9,350	5,441	14,791

Included in additions to freehold land and buildings and plant, equipment, fixtures and fittings, are amounts of £2,200,000 and £179,600 respectively in respect of assets held under a finance lease. The property is the freehold land and buildings relating to Salisbury Independent Hospital and Medical Services Limited. These assets were subject to a sale and leaseback agreement whereby they were sold for £2,379,600 to a subsidiary of Hambros Bank Limited.

The term of the lease is 25 years. Hambros Bank has options to sell these assets to the Company which in turn has options to buy these assets at certain times during this period.

The land and buildings included in the valuation of 25th March 1986 were valued by John D Wood, Chartered Surveyors, on the basis of existing use.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 12 TANGIBLE FIXED ASSETS — GROUP *continued*

Land and buildings owned by Nestor Medical Services Limited and Nestor Medical Personnel Limited were valued at 10th November 1987 by John D Wood, Chartered Surveyors, on the basis of open market value.

	1989 £000	1988 £000
If land and buildings had not been valued, they would have been included at their original cost of	5,016	4,749

TANGIBLE FIXED ASSETS — COMPANY

	Freehold Land and Buildings £000	Plant, Equipment, Fixtures & Fittings £000	Total £000
COST OR VALUATION			
At 1st January 1989	—	—	—
Additions	2,200	304	2,504
At 31st December 1989	2,200	304	2,504
DEPRECIATION			
At 1st January 1989	—	—	—
Charge for the year	—	24	24
At 31st December 1989	—	24	24
NET BOOK VALUE			
At 31st December 1989	2,200	280	2,480
At 31st December 1988	—	—	—

The freehold land and buildings acquired by the Company represent the property held under the finance lease described above.

	1989 £000	1988 £000
NOTE 13 CAPITAL COMMITMENTS — GROUP		
Capital expenditure that has been contracted but not provided for	73	106
Capital expenditure that has been authorised by the Directors but not yet contracted for	—	487
	73	593

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 14 FIXED ASSETS INVESTMENTS

	Company £000	Group £000
At 1st January 1989	11,548	—
Additions:		
Scott-Grant — additional acquisition costs	42	—
Hewitson-Walker	13,378	—
Nutri/System (UK) Limited	574	574
Disposals:		
New Hall Hospital	(611)	—
At 31st December 1989	24,931	574

The following principal subsidiary companies are wholly-owned, incorporated, and operate in Great Britain.

COMPANY	BUSINESS
Nestor Medical Personnel Limited	
British Nursing Co-operations Limited (Trading as British Nursing Association or BNA)	<i>Nursing Agencies</i>
Nestor Medical Services Limited	<i>Hospitals and Nursing Homes</i>
Nestor Medical Deputising Group Limited	
Liverpool Locums Limited	<i>Doctors' Deputising Services</i>
Birmingham Locums Limited	
On-Call Limited	
Medical Relief Agency (Stoke-on-Trent) Limited	
Scott-Grant (Management Services) Limited	
Scott-Grant (Computer Services) Limited	
Scott-Grant (Technical Services) Limited	<i>Specialist Personnel</i>
Scott-Grant (Training Services) Limited	
Scott-Grant (Financial Services) Limited	
Scott-Grant Limited	
Hewitson-Walker Limited	
Hewitson-Walker (Freelance Accounting Appointments) Limited	<i>Specialist Personnel</i>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 14 FIXED ASSET INVESTMENT — COMPANY *continued*

(a) Hewitson-Walker

On 11th August 1989 the Group acquired Hewitson-Walker Limited. The initial consideration of £12,421,499 was satisfied by a rights issue of 7,667,592 new Ordinary Shares of 10p each at 108p per share and 3,332,394 new Ordinary Shares of 10p each which were issued to the vendors. Subsequently a further payment of £956,242 was made by the issue of 857,000 new Ordinary Shares of 10p each. These payments, totalling £13,377,741, represent 70% of the base consideration payable for Hewitson-Walker. The base consideration equates to ten and a half times the post-tax profit for the year ended 8th October 1989 and based on audited figures for the year ended 8th October 1989, this base consideration has been adjusted to £19,111,061.

The balance of the base consideration will be paid in three equal instalments early in 1991, 1992 and 1993 provided that pre-tax profits for the years ending 31st December 1990, 1991 and 1992 exceed that of the previous year by 15%. In the event that the pre-tax profit falls short of this figure, the relevant instalment will be reduced by £5 for every £1 of shortfall.

If the pre-tax profit for the years ending 31st December 1990, 1991 and 1992 exceeds that of the previous year by more than 15%, then additional payments will be made early in 1991, 1992 and 1993 of £5 for every £1 of such excess increasing to £6 for every £1 of any excess above 25%.

The initial payment, deferred payments and any additional payments are subject to a combined maximum of £25 million and will be satisfied by a combination of Ordinary Shares and Unsecured Loan Notes in the Company.

The net assets acquired in respect of Hewitson-Walker, and the goodwill arising, are as follows:

	Book value £000
Fixed assets	
Tangible fixed assets	32
Current assets	
Trade debtors	1,153
Sundry debtors	563
Cash at bank	542
Total assets	2,290
Current liabilities	
Sundry creditors	1,756
Net assets	534
Initial consideration paid	13,378
Goodwill	12,846

No material fair value adjustments were made.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st December 1989

NOTE 14 FIXED ASSET INVESTMENT — COMPANY *continued*

(b) Scott-Grant Organisation

On 25th November 1988 the Group merged with Scott-Grant Organisation. The initial consideration of £4,125,000 was satisfied by the issue of 4,536,052 new Ordinary Shares of 10p each and subsequently a further payment of £745,875 was made by the issue of 493,956 more new Ordinary Shares of 10p each. These payments, totalling £4,870,875, represent 75% of the base consideration payable for Scott-Grant. The total base consideration equates to ten times post-tax profit for the year ended 31st December 1988, after making certain adjustments for non-recurring items, plus the value of net tangible assets at completion. Based on audited figures for the year ended 31st December 1988, the base consideration has been adjusted to £6,494,500.

The balance of the base consideration is payable in two instalments, the first of which is being satisfied by the issue to the Scott-Grant vendors of £812,000 13% Unsecured Loan Stock. The second instalment will be payable early in 1991 provided that pre-tax profit for the year ending 31st December 1990 exceeds that for 1988 by 35%. In the event that pre-tax profit falls short of this figure, then the instalment will be reduced by £5 for every £1 of shortfall.

If pre-tax profit for the year ending 31st December 1990 exceeds that for 1988 by more than 47%, then an additional payment will be made early in 1991 of £5 for every £1 of such excess.

The deferred payments and any additional payments are subject to a combined maximum of £5 million and may be satisfied by a combination of Ordinary Shares and Unsecured Loan Stock in the Company.

(c) New Hall Hospital

During the year the Company transferred its investment in Salisbury Independent Hospital and Services Limited, the owner of New Hall Hospital, to a subsidiary company Nestor Medical Services Limited, at net asset value.

(d) Nutri/System (United Kingdom) Limited

On 21st February 1989 the Company signed a joint venture agreement with Nutri/System, Inc. whereby a company called Nutri/System (United Kingdom) Limited has been established and given the right to offer Nutri/System, Inc.'s medically approved weight-loss programme, encompassing counselling as well as the provision of dietary foods, in the United Kingdom.

The Company agreed to make available to Nutri/System (United Kingdom) Limited a sum of £1,000,000 by way of a £82,400 subscription for 'B' shares of £1 each at par, £247,600 non-interest bearing Convertible Loan Stock and £670,000 by way of an interest bearing loan.

Until such time as the non-interest bearing Convertible Loan Stock is converted, the Company's share of profits and losses will be 19.9% with the balance of 80.1% to Nutri/System, Inc.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 1989

NOTE 11 FIXED ASSET INVESTMENT — COMPANY *continued*

At 31st December 1989 the Company had invested an amount of £574,000 in Nutri/System (United Kingdom) Limited being 82,400 'B' shares of £1 each with the balance being in loans.

The audited financial statements of Nutri/System (United Kingdom) Limited for the 11 months ended 30th June 1989 show a loss after taxation of £126,614. Since then, these losses have increased as is customary for a start-up operation but it is expected that Nutri/System (United Kingdom) Limited will move into profit in 1991.

	GROUP		COMPANY	
	1989 £000	1988 £000	1989 £000	1988 £000
NOTE 15 STOCKS				
Consumables and goods for resale	206	158	—	—
NOTE 16 DEBTORS				
Trade debtors	12,116	9,224	—	—
Amounts owed by Group companies	—	—	11,592	6,273
Other debtors	914	176	1,521	2
Prepayments and accrued income	937	458	71	2
Dividends receivable	—	—	2,795	1,392
Corporation tax	—	—	—	431
	13,967	9,858	15,979	8,100
NOTE 17 CREDITORS				
Amounts falling due within one year				
Bank overdraft	6,670	4,452	—	—
Trade creditors	3,377	2,899	—	—
Amounts owed to Group companies	—	—	7,973	2,825
Dividends proposed	1,084	710	1,084	710
Corporation tax	2,142	2,087	240	—
Other tax and social security	918	632	—	—
Other creditors	1,220	417	960	148
Accruals and deferred income	535	685	362	274
Current instalment of long term loan	—	16	—	—
	15,946	11,898	10,619	3,957

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

	GROUP		COMPANY	
	1989 £000	1988 £000	1989 £000	1988 £000
NOTE 18 CREDITORS				
Amounts falling due after more than one year				
Bank loan	2,500	2,000	2,500	2,000
Obligations under finance leases	2,393	—	2,380	—
	<u>4,893</u>	<u>2,000</u>	<u>4,880</u>	<u>2,000</u>

The bank loan is secured by a fixed charge over one of the Group's properties and bears interest at a rate linked to LIBOR.

	GROUP		COMPANY	
	1989 £000	1988 £000	1989 £000	1988 £000
NOTE 19 PROVISIONS FOR LIABILITIES AND CHARGES				
DEFERRED TAXATION PROVISION				
At 1st January 1989	69	70	—	—
Provided/(released) in the year	269	(1)	—	—
At 31st December 1989	<u>338</u>	<u>69</u>	<u>—</u>	<u>—</u>
Potential liability	<u>388</u>	<u>242</u>	<u>—</u>	<u>—</u>

The potential liability represents principally the notional tax on the amount by which capital allowances exceed accumulated depreciation.

In addition to the potential liability shown above, a taxation charge of approximately £900,000 would arise on chargeable gains in the event of the Group's properties being realised at valuations at which they are included in the balance sheet at 31st December 1989.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

	Authorised		Allotted, Issued and Fully Paid	
	Number	£000	Number	£000
NOTE 20 SHARE CAPITAL				
Ordinary 10p shares				
Balance at 1st January 1989	60,000,000	6,000	40,772,670	4,077
Issued in connection with the acquisition of Hewitson-Walker	—	—	12,520,517	1,252
Issued in connection with the merger with Scott-Grant	—	—	493,956	50
Issued in respect of acquisition of Nursecalc	—	—	388,988	39
Authorised during the year	16,000,000	1,600	—	—
Balance at 31st December 1989	76,000,000	7,600	54,176,131	5,418

	Share Premium Account £000	Revaluation Reserve £000	Merger Reserve £000	Profit (Loss) Account £000	Total £000
NOTE 21 RESERVES GROUP					
As at 1st January 1989	3,416	—	—	1,065	4,481
Adjustment arising in respect of previous revaluations	—	(250)	—	—	(250)
Reserve arising on acquisition of businesses	—	—	12,846	—	12,846
Goodwill on acquisitions written off	—	—	(12,846)	(801)	(13,647)
Acquisition costs written off	(757)	—	—	—	(757)
Share premium on issued shares	331	—	—	—	331
Retained profit for the year	—	—	—	2,434	2,434
Transfer from profit and loss account	—	250	—	(250)	—
As at 31st December 1989	2,990	—	—	2,448	5,438

The total amount of goodwill that has been written off against reserves in respect of subsidiaries still held by the Group is £23,428,000.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1989

NOTE 21 RESERVES *continued*

	Share Premium Account £000	Merger Reserve £000	Profit/ (Loss) Account £000	Total £000
COMPANY				
As at 1st January 1989	3,416	4,238	1,912	9,566
Acquisition costs written off	(757)	—	—	(757)
Reserve arising on acquisition of businesses	—	12,846	—	12,846
Share premium on issues	331	—	—	331
Retained profit for the year	—	—	2,198	2,198
At 31st December 1989	2,990	17,084	4,110	24,184

NOTE 22 POST BALANCE SHEET EVENTS

On 22nd March 1990, the Company announced that it had agreed to acquire the business of Medical Emergency Duty Service (MEDS), a doctors' deputising service based in Manchester for a consideration of £1.6 million.

On 22nd March 1990, the Company announced that it had conditionally agreed to acquire the businesses of Medical Recruiters of America, Inc. and MRA — California, Inc. collectively known as MRA, a travel nurse agency business based in Florida in the United States of America for a consideration of \$40.8 million.

In order to finance these acquisitions and to provide working capital for MRA the Company announced on 22nd March 1990 that it was intending to raise £27.5 million through a rights issue of 1.8 million new Ordinary 10p shares and by the private placement of \$17 million of US dollar denominated Senior Unsecured Loan Notes due 1997.

In accordance with the agreement to acquire Scott-Grant, a further payment of £812,000 became due on 14th March 1990 to the Scott-Grant vendors, as a result of profit targets being achieved for the year ended 31st December 1989 and is being satisfied by the issue to the Scott-Grant vendors of 13% Unsecured Loan Stock in Nestor-BNA plc.

NOTE 23 CONTINGENT LIABILITIES

The Company and its subsidiaries has given guarantees to banks in respect of a £3.5 million overdraft facility available to the Group. Additionally the Company has given guarantees of £200,000 in respect of Nutri/System (United Kingdom) Limited and £250,000 in respect of Scott-Grant (Management Services) Limited.

NOTE 24 OTHER FINANCIAL COMMITMENTS

The Group occupies numerous premises operated under leases whose terms, conditions and expiry dates vary considerably. The aggregate annual rental of these premises amounted to £565,000 in 1989.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 1989

NOTE 25 PENSION COSTS

The Company operates a pension scheme providing benefits based on final pensionable salary. The Scheme is administered by Trustees separately from the affairs of the Group and is contracted out of the additional component of the State Pension Scheme.

The manager of the Scheme is Eagle Star. The Pension Actuary of Eagle Star Insurance Company Limited carried out an actuarial valuation of the Scheme at 30th April 1986 using a modified projected unit method and concluded that at that date the actuarial value of the assets was sufficient to cover 141.4% of the accrued benefits, allowing for expected future salary increases up to Normal Pension Age. For funding purposes the surplus has been spread over the period of 20 years, thus reducing the employer's funding rate from 5.4% to 4.2%. Members' contributions remained at 5%. As the average expected remaining service life of the current members is 16 years, the funding rate is deemed equivalent to the charge for pension costs under the principles of Statement of Standard Accounting Practice Number 24. Each employer also pays an additional funding rate of 1.9% for death in service benefits consisting of employee life assurance and spouses' pensions following employee death in service.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. A rate of interest of 8% per annum has been used to discount future income and outgoing benefits, and it has been assumed that salary increases will average 6.5% per annum.

The pension charge for the year was £165,000 (1988: £155,000).

NOTE 26 THE NESTOR-BNA EMPLOYEE SHARE OPTION SCHEME

Options for 1,929,214 Ordinary 10p shares had been issued to Directors and employees of the Group at 31st December 1989.

The options are exercisable subject to the rules of the scheme from October 1990 to August 1999 at prices of between 75p and 150p per share.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of the Company will be held at The Brewery, Chiswell Street, London EC1Y 4SD on 16th May 1990, at 12 noon for the following purposes:

ORDINARY BUSINESS

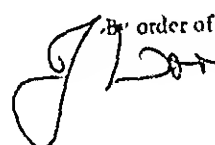
1. To receive and consider the Financial Statements, together with the reports of the Directors and Auditors, for the year ended 31st December 1989.
2. To declare a final dividend.
3. To re-elect J J Cockburn as a Director.
4. To re-elect F J A Howard as a Director.
5. To re-elect P Punter as a Director.
6. To reappoint Coopers & Lybrand Deloitte as Auditors to act as such until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

7. To consider and, if thought fit, to pass the following Resolution which will be proposed as a Special Resolution:
THAT the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of that Act) pursuant to the authorities respectively conferred by paragraph (E) of Special Resolution numbered 2 passed at the Extraordinary General Meeting of the Company held on 23rd October 1987, by Ordinary Resolution numbered 2 passed at the Extraordinary General Meeting of the Company held on 5th December 1988, by Ordinary Resolution numbered 2 passed at the Extraordinary General Meeting of the Company held on 11th August 1989, and by Ordinary Resolution numbered 2 passed at the Extraordinary General Meeting of the Company held on 9th April 1990, as if sub-section (1) of section 89 of that Act did not apply to any such allotment, provided that this power shall be limited:
(i) to the allotment of equity securities in connection with any rights issue in favour of ordinary shareholders on the register of members at such record date or dates as the Directors may determine for the purpose of the issue where the equity securities respectively attributable to the interests of all such holders of ordinary shares are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them at any such record date or dates so determined, provided that the Directors may make such arrangements in respect of overseas holders of shares and in respect of fractional entitlements as they consider necessary or convenient;
(ii) to the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and
(iii) to the allotment otherwise than pursuant to sub-paragraphs (i) and (ii) above of equity securities up to an aggregate nominal amount of £271,000
and shall expire on the date of the next Annual General Meeting of the Company after the date of passing this Resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that this power has expired.

Registered Office:
20A Church Road
Welwyn Garden City
Hertfordshire AL8 6PS

28th March 1990

By order of the Board
 J Wood
Secretary

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. To be valid, proxies must be lodged with the registrars of the Company not later than 48 hours before the time appointed for the meeting.
2. Copies of all service agreements of more than one year's duration between the Company and the Directors will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the date of the meeting (Saturdays and bank holidays excepted) and at the place of the meeting from 15 minutes before and until the end of the meeting.